



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE  
AUDITOR-CONTROLLER

MARIA M. OMS  
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
JUDI E. THOMAS

May 19, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **EXCEPTIONAL CHILDREN'S FOUNDATION CONTRACT REVIEW – A  
DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Exceptional Children's Foundation (ECF or Agency), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with ECF, a private non-profit community-based organization that provides services to clients in Service Planning Area 5. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Second District.

DMH paid ECF on a cost-reimbursement basis between \$1.65 and \$3.95 per minute of staff time (\$99 to \$237 per hour) for services or approximately \$811,000 and \$660,000 for Fiscal Years (FY) 2007-08 and 2008-09, respectively.

**Purpose/Methodology**

The purpose of our review was to determine whether ECF complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

### **Results of Review**

ECF maintained documentation to support the mental health services billed and that staff assigned to the County contract possessed the required qualifications. However, the Agency did not always comply with other County contract requirements and billed DMH \$6,850 (7%) in questioned costs from the \$97,061 (\$77,388 + \$7,091 + \$12,582) in expenditures sampled. Specifically, ECF:

- Allocated \$2,110 in auto insurance costs for a vehicle not used by the DMH program.
- Allocated \$559 in FY 2007-08 and \$2,099 in FY 2008-09 to the DMH program using incorrect or unsupported allocation rates. Subsequent to our review, ECF reduced their FY 2008-09 program expenditures by \$2,099.
- Allocated \$2,082 in payroll costs to the DMH program without adequate documentation to support the allocation. The Agency's Cost Allocation Plan indicated that salaries and wages are allocated based on the time staff reported on their timesheets. However, the timesheets for the three Agency staff did not indicate the actual hours worked each day by program.

We have attached the details of our review along with recommendations for corrective action.

### **Review of Report**

We discussed the results of our review with ECF and DMH. In the attached response, the Agency concurred with our findings and recommendations. The Agency also adjusted their program expenditures (\$2,099 in FY 2008-09) and agreed to repay DMH \$4,751 (\$2,110 + \$559 + \$2,082).

We thank ECF management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

- c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Kevin D. DeBre, Chair, Board of Directors, ECF  
Scott Bowling, Executive Director, ECF  
Public Information Office  
Audit Committee

**DEPARTMENT OF MENTAL HEALTH  
EXCEPTIONAL CHILDREN'S FOUNDATION  
FISCAL YEARS 2007-08 AND 2008-09**

**BILLED SERVICES**

**Objective**

Determine whether Exceptional Children's Foundation (ECF or Agency) provided the services billed in accordance with their County contract with the Department of Mental Health (DMH).

**Verification**

We selected 25 billings totaling 3,325 minutes from 37,786 service minutes of approved Medi-Cal billings for December 2008 and January 2009. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,325 minutes represent services provided to 15 program participants.

**Results**

ECF maintained documentation to support the minutes billed. In addition, the Agency completed the Assessments, Client Care Plans and Progress Notes in accordance with the County contract requirements.

**Recommendation**

None.

**STAFFING LEVELS**

**Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section, as the Agency did not provide services that require staffing ratios for this particular program.

**Recommendation**

None.

**STAFFING QUALIFICATIONS****Objective**

Determine whether ECF's treatment staff possessed the required qualifications to provide the services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for seven of ten ECF treatment staff who provided services to DMH clients during December 2008 and January 2009.

**Results**

Each employee in our sample possessed the qualifications required to provide the services billed.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash and other liquid assets.

**Verification**

We interviewed ECF management and reviewed the Agency's financial records. We also reviewed the Agency's March 2009 bank reconciliations for four bank accounts.

**Results**

ECF maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

**Recommendation**

None.

**COST ALLOCATION PLAN****Objective**

Determine whether ECF's Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed the Agency's Cost Allocation Plan and selected 14 shared expenditures totaling \$77,388 to ensure that expenditures were appropriately allocated to the Agency's programs.

**Results**

ECF's Cost Allocation Plan was prepared in compliance with the County contract. However, ECF allocated \$4,768 in questioned costs. Specifically, ECF:

- Allocated \$2,110 in auto insurance costs for a vehicle not used by the DMH program during Fiscal Year (FY) 2007-08.
- Over allocated \$559 in FY 2007-08 and \$2,099 in FY 2008-09 to the DMH program using incorrect allocation rates.

DMH pays ECF a negotiated rate for their cost-reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

**Recommendations****ECF management:**

1. **Revise the FY 2007-08 Cost Report to reduce the program expenditures by \$2,669 (\$2,110 + \$559) and repay DMH for any excess amount received.**
2. **Reduce the program expenditures by \$2,099 for FY 2008-09.**
3. **Ensure that shared costs are allocated in accordance with the Cost Allocation Plan.**

**EXPENDITURES****Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program.

**Verification**

We reviewed financial records and documentation to support six non-payroll expenditure transactions totaling \$7,091 charged to the DMH program between July 2007 and January 2009.

**Results**

ECF's program expenditures were allowable, properly documented and accurately billed.

**Recommendation**

None.

**FIXED ASSETS****Objective**

Determine whether fixed assets charged to DMH were allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed two items with depreciation costs of \$19,657 that the Agency charged DMH during FY 2007-08.

**Results**

The depreciation costs charged to DMH were allowable, properly documented and accurately billed. However, ECF did not maintain a complete listing of fixed assets that includes the item descriptions, serial numbers and source of funding. In addition, the Agency did not perform an annual inventory of their fixed assets.

**Recommendations****ECF management:**

- 4. Maintain a complete fixed asset listing.**
- 5. Perform an annual inventory of their fixed assets.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced the payroll expenditures for 18 employees totaling \$12,582 to the payroll records and time reports for the pay period ending April 17, 2009. We also interviewed four employees and reviewed personnel files for 12 employees.

**Results**

ECF properly maintained their personnel files. However, the Agency allocated \$2,082 in payroll costs to the DMH program without adequate documentation to support the allocation. The Agency's Cost Allocation Plan indicated that salaries and wages are allocated based on the time staff reported on their timesheets. However, the timesheets for the three Agency staff did not indicate the actual hours worked each day by program.

**Recommendations****ECF management:**

- 6. Revise the FY 2008-09 Cost Report to reduce the program expenditures by \$2,082 and repay DMH for any excess amount received.**
- 7. Ensure that employees' timesheets indicate the actual hours worked each day by program.**

**COST REPORT**

**Objective**

Determine whether ECF's FY 2007-08 Cost Report reconciled to the Agency's financial records.

**Verification**

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

**Results**

The total Agency expenditures listed on ECF's Cost Report reconciled to the Agency's accounting records.

**Recommendation**

**None.**





Exceptional Children's Foundation

8740 Washington Blvd. Culver City, CA 90232  
T (310) 204-3300 F (310) 845-8001 • www.ecf.net

February 25, 2010

Ms. Wendy Watanabe  
Auditor-Controller  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-3873

Dear Ms. Watanabe,

Attached is Exceptional Children's Foundation's response to your letter regarding the Department of Mental Health's contract review. All information was previously provided to Ms. Cindy Pak our site auditor.

We agree to reimburse Department of Mental Health for the following disallowed expenses for FYE 06/30/08:

\$ 2,110.00	Auto Insurance
559.00	Telephone Expenses
2,082.00	Salaries & Wages
-----	
\$ 4,751.00	Total amount due to DMH

If more documentation is needed, please feel free to contact us.

Sincerely,

Sonhui Robilotta  
V.P. - Finance

CC: Cindy Pak



Exceptional Children's Foundation

8740 Washington Blvd. Culver City, CA 90232  
T (310) 204-3300 F (310) 845-8001 • www.ecf.net

To: Wendy L. Watanabe, Auditor-Controller

From: Sonhui Robilotta  
V.P. – Finance  
Exceptional Children's Foundation

Subject: Reply to Auditor-Controller Audit of September 2009

### **BILLED SERVICES**

#### Objective

Determine whether Exceptional Children's Foundation (ECF or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

#### Verification

We judgmentally selected 25 billings totaling 3,325 minutes from 37,786 service minutes of approved Medi-Cal billings for December 2008 and January 2009. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,325 minutes represent services provided to 15 program participants.

#### Results

ECF maintained documentation to support the minutes billed. In addition, the Agency completed the Assessments, Client Care Plans and Progress Notes in accordance with the County contract requirements.

Recommendation: None.

**ECF's Response:** N/A

### **STAFFING LEVELS**

#### Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require staffing ratios for this particular program.

Recommendation: None.

**ECF's Response:** N/A

## STAFFING QUALIFICATIONS

### Objective

Determine whether ECF's treatment staff possessed the required qualifications to provide the services.

### Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for seven of ten ECF treatment staff who provided services to DMH clients during December 2008 and January 2009.

### Results

Each employee in our sample possessed the qualifications required to provide the services billed.

Recommendation: None.

**ECF's Response: N/A**

## CASH/REVENUE

### Objective

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash and other liquid assets.

### Verification

We interviewed ECF management and reviewed the Agency's financial records. We also reviewed the Agency's March 2009 bank reconciliations for four bank accounts.

### Results

ECF maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

Recommendation

None.

**ECF's Response: N/A**

## COST ALLOCATION PLAN

### Objective

Determine whether ECF's Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to allocate appropriately shared program expenditures.

### Verification

We reviewed the Agency's Cost Allocation Plan and selected a sample of expenditures to ensure that expenditures were appropriately allocated to the Agency's programs.

### Results

ECF's Cost Allocation Plan was prepared in compliance with the County contract. However, ECF allocated \$4,768 in questioned costs. Specifically, ECF:

- Allocated \$2,110 in auto insurance costs for a vehicle not used by the DMH Program during Fiscal Year (FY) 2007-08. *(See response #1)*
- Over allocated \$559 in FY 2007-08 and \$2,099 in FY 2008-09 to the DMH Program. Specifically, the Agency erroneously used incorrect allocation rate. *(See Response #2)*

DMH pays ECF a negotiated rate for their cost reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

### Recommendations

1. Revise the FY 2007-08 Cost Report to reduce the program expenditures by \$2,669 and repay DMH for any excess amount received.
2. Reduce the program expenditures by \$2,099 for FY 2008-09.
3. Ensure that shared costs are allocated in accordance with the Cost Allocation Plan.

**ECF's RESPONSE: (1)** We will repay DMH \$ 2,669. as indicated below:

(A) \$ 2,110.00 for FYE 06/30/08 – Cost was allocated by mistakes based on old KEC's procedures prior to the merger. We have completely eliminated Auto Insurance Cost charges to Mental Health for FYE 06/30/09

**Over allocated \$2,658 to the DMH Program. Specifically, the Agency erroneously used incorrect allocation Rate. As Follows:**

\$ 566.43	- Office Rental	09/01/08
1,532.99	- Utilities	07/19/08
559.06	- Telephone	04/30/08
-----		
\$ 2,658.45	Total	

(B) We will repay DMH \$559.06 for the over charged telephone expense on FYE 06/30/08 only – other costs like Office Rental, Utilities and other shared costs has been carefully reviewed and applied after the merger which were reflected effective on FYE: 06/30/09

ECF's RESPONSE: (2) Costs were already reduced in the amount of \$2,099 for FY 2008-09. The following expenses were incurred in FYE 06/30/09 and has been reversed.

\$ 566.43 - Office Rental	09/01/08
1,532.99 - Utilities	07/19/08
-----	
\$ 2,099.42	Total

ECF's RESPONSE: (3) costs allocations and all expenses has been carefully reviewed and applied after the merger which were reflected effective on FYE: 06/30/09

## EXPENDITURES

### Objective

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH Program.

### Verification

We reviewed financial records and documentation to support 18 non-payroll expenditure transactions totaling \$84,479 charged to the DMH program between July 2007 and January 2009.

### Results

EFC's program expenditures were allowable, properly documented, and accurately billed.

### Recommendation

None.

**ECF's Response: N/A**

## FIXED ASSETS

### Objective

Determine whether fixed assets depreciation costs charged to DMH were allowable under the County contract, properly documented and accurately billed.

### Verification

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed two items with depreciation costs of \$19,657 that the Agency charged to the DMH program during FY 2007-08.

### Results

The depreciation costs charged to DMH were allowable, properly documented and accurately billed. However, ECF did not maintain a complete listing of fixed assets that includes the item descriptions, serial numbers and source of funding. In addition, the Agency did not perform an annual inventory of their fixed assets.

### Recommendations

ECF management:

4. Maintain a complete fixed asset listing
5. Perform an annual inventory of their fixed assets.

**ECF's RESPONSE (4)** A fixed Assets Listings has been carefully maintained by both organizations (ECF and KEC) prior and after the merger. Although sufficient by external auditor's standards (RBZ), a more comprehensive listings of all assets from all locations will be implemented to comply with DMH requirements.

**ECF's RESPONSE (5)** An annual inventory of fixed assets and serial number tracking will be considered in the future as financial resources becomes available. Documentation for sources of funding for assets acquired will be accurately tracked for DMH purposes.

## PAYROLL AND PERSONNEL

### Objective

Determine whether payroll expenditures were appropriately charged to the DMH Program. In addition, determine whether personnel files are maintained as required.

### Verification

We traced the payroll expenditures for 18 employees totaling \$12,582 to the payroll records and time reports for the pay period ending April 17, 2009. We also interviewed four employees and reviewed personnel files for the 12 employees.

### Results

ECF properly maintained their personnel files. However, the Agency allocated \$2,584 to the DMH Program for five employees' payroll costs without adequate documentation. The Agency's Cost Allocation Plan indicated that salaries and wages are allocated based on staff's timesheets indicating their time spent on the program. However, the staff's timesheets did not indicate actual hours worked each day by program.

### Recommendations

ECF management:

6. Provide documentation to support the \$2,584 charged to the DMH Program and reduce the FY 2008-09 program expenditures for the amounts not supported.

7. Ensure that employees' timecards indicate the actual hours worked each day by program.

**ECF's RESPONSE: (6)** We will repay DMH \$2,082.00 for the disallowed allocation charges exceeding 10% of the Cost Allocation Plan for Michelle, Charlessa, and Julio. The 2 hourly employees in question totaling \$ 502.00 were cleared by the auditor. We have previously discussed these findings in detail with the auditors who were at our site. Allocations were based on computed square footage based on the program's actual occupancy including applicable Common Area and has been applied correctly (Those employees' services are shared costs of the KEC Site i.e. Building Maintenance, Receptionists, etc.).

**ECF's Response (7):** For the FYE ending 06/30/08, timesheets were not marked with the exact hours for the five employees indicated who were on hourly basis, but their hours are properly accounted for it. For FYE 06/30/09 most timesheets were marked with exact hours worked per day as suggested by the auditors.

## **COST REPORT**

### Objective

Determine whether ECF's FY 2007-08 Cost Report reconciled to the Agency's financial records.  
Verification

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

### Results

The total Agency expenditures listed on ECF's Cost Report reconciled to the Agency's accounting records.

### Recommendation

None.

**ECF's Response: N/A**